

**Statement of
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Subcommittee on Railroads
Committee on Transportation & Infrastructure
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Chairman LaTourette:

Good morning, Mr. Chairman. Thank you for your invitation to appear today to discuss Amtrak's Food and Beverage operations.

In Amtrak's *Strategic Reform Initiatives and FY06 Grant Request*, the company stated its desire to undertake closer examinations of its operations with an eye toward improving management controls and finding more efficient and effective ways to deliver rail passenger services. In this vein of seeking better 'ways to run a railroad,' the Amtrak OIG conducts reviews that we believe identifies opportunities for the company to improve its operating efficiency and financial performance.

This morning I would like to summarize for the Committee the results of a Food & Beverage Operation review my Office conducted last year. This review was undertaken for several reasons. First, while there have been some prior reviews of various aspects of food and beverage operations, neither the company nor my Office have conducted a complete, systematic review of these operations for some time. Food and beverage services are deemed integral to rail passenger service, and, indeed, the dining car experience is a high point for many passengers using long-distance and overnight services. Therefore, the management of these operations are critical to the overall success of Amtrak.

Second, my Office and Amtrak management have been involved in a number of investigations of food and beverage workers for the past three years. In an eighteen month period alone, 135 employees were dismissed, resigned, or were disqualified for improper cash handling. These investigations were prompted after a break-down in internal controls arising from difficulties in the outsourcing of commissary operations and a failed implementation of a new "point-of-sale" system. When Amtrak President David Gunn arrived at Amtrak, he asked me why our café Attendants did not use cash registers and instead "worked out of cardboard boxes." Mr. Gunn immediately directed that cash registers, with receipts, be installed and that internal controls be re-established. These efforts have been partly successful, but weak controls remain.

Third, our review was undertaken because my Office and Amtrak needed to better understand the true carrying costs for the service. Food and beverage operations represent almost \$200 million in annual expenses to the corporation. The OIG is convinced there are real opportunities for the company to streamline these services by

using new acquisition and delivery business models and by using better revenue and customer metrics.

To acquaint the Committee with Amtrak’s food and beverage operations, here is some background information:

- Amtrak offers food and beverage service on approximately 90 percent of the 300 trains it operates daily over the national rail transportation system.
- There is a wide range in the type of food and beverage service offered on Amtrak trains, but it can be generally categorized into either first class or coach service offered on either long distance or short distance trains.
- The long distance trains provide first class service from dining cars and coach service from lounge cars, while short distance trains provide first class service from club cars and coach service from café cars. The café service is typically provided by a single on-board service employee and offers a variety of carry out beverages, snacks, and sandwiches.
- The full sit-down dining service is typically provided by a dining car staff that includes a chef, one or two food service specialists, an LSA (lead service attendant), and two to four service attendants.
- Amtrak employs almost 1,500 persons on-board its trains to deliver food and beverage service, with total expenses approaching \$200 million.

When the OIG began its review last year, we used as our baseline Amtrak’s FY 2003 financial performance data. Amtrak’s FY 04 performance is very similar.

Amtrak’s FY 03 Food and Beverage Financial Performance (000’s)

Revenue

Cash	\$ 44,599
1 ST Class Transfer	<u>33,732</u>

Total Food & Bev. Revenue \$ 78,331

Direct Expenses (Excludes equipment related and overhead expenses)

Labor	\$ 87,245
Food & Beverage	36,129
Commissary Support	29,371
Non-consumables ¹	<u>9,359</u>

Total Direct Expenses \$ 162,104

Net Direct Operating Loss (\$ 83,773)

¹ Non-consumable expenses include linen, laundry, paper products, flatware, cookware, etc.

Our review quantified the FY 03 financial performance of Amtrak's food and beverage operation on a system-wide level, a route level, and a service level (i.e. café, diner, club, lounge). The revenues include both cash sales and the retail value of food and beverage service provided to sleeping car and club car passengers (1st class transfer.) The expenses include all related on-board labor expenses, the cost of food and beverage supplies, the cost of non-consumable supplies, and commissary expenses (i.e. warehousing, pulling stock, delivering stock). These results do not include any equipment related expenses (i.e. rolling stock servicing, maintenance, and ownership expenses) or any other support and overhead expenses that are related to the food and beverage operation.

The OIG review then used the FY 03 financial performance of Amtrak's food and beverage operation and compared it to the financial performance of comparable restaurants in the United States. FY 03 data was used for this review since 2003 was the most current financial data that was available for the U.S. restaurant industry.

Amtrak versus U.S. Restaurant performance

To attain a perspective of how Amtrak's food and beverage operation compares to other food service operations, Amtrak's financial performance was compared to the financial performance of comparable restaurants in the U.S. Restaurant Industry. It is recognized that there are some significant institutional differences between Amtrak and the U.S. Restaurant Industry that compromises an exact apples to apples comparison of the operations. For example:

- Amtrak employees are 100% unionized while most U.S. restaurant employees are not.
- Amtrak employees are full-time while most U.S. restaurant employees are not.
- Many Amtrak employees are away from home for days at a time while U.S. restaurant employees typically are not.
- Amtrak stocks its food service cars prior to a trip and then removes the food from the cars at the end of each trip while U.S. restaurants do not.
- Amtrak uses on-site commissary facilities to store and assemble food and beverage stock while U.S. restaurants normally do not.
- U.S. restaurants typically have on-site management personnel while Amtrak does not.
- Amtrak has a captive market and limited competition while most U.S. restaurants do not.

However, recognizing these differences, the comparisons have been made to determine where and how the financial performances differ to help Amtrak focus its efforts on the areas most critical to improving its financial performance.

The information on the financial performance of U.S. restaurants is obtained from the Restaurant Operations Report 2003. To insure that Amtrak's performance is being compared as fairly as possible to the appropriate type of U.S. restaurants, the following categories of restaurants were chosen.

- Amtrak was compared to the U.S. restaurants with median performance levels.
- Amtrak dining and club service is compared to full service restaurants whose average check per person was between \$15 to \$25.
- Amtrak lounge and café services are compared to limited service restaurants (i.e. deli type), with an average check per person of \$7.

OIG Review Findings

The financial performance of Amtrak's food and beverage operation is significantly worse than that of the U.S. restaurant industry.

In our full report, we find that all of the varying types of food and beverage operations on all Amtrak routes lose money. The food and beverage service provided in café cars, lounge cars, club cars, and dining cars all lose money. Relatively, café cars perform better than club cars, and lounge cars perform better than dining cars. However, Amtrak's Acela service loses more money in these operations than other short-distance services.

The attached bar graph, *Comparison of Total Costs*, illustrates and compares Amtrak's food and beverage cost to revenue ratio to that of the U.S. restaurant industry.

This graph illustrates the fact that for every \$1.00 in food and beverage sales, Amtrak incurred \$2.06 in direct operating expenses. In comparison, the median full service restaurant incurred \$0.70 in direct operating expenses for every \$1.00 in sales and the limited service restaurant incurred \$0.67 in direct operating expenses for every \$1.00 in sales. These cost ratios do not include any expenses relating toward owning and maintaining the food service facilities.

This graph also illustrates the fact that, on the average, Amtrak pays about 3.5 times the amount paid by comparable U.S. restaurants for labor and about 2.5 times the amount they pay to purchase and deliver the food and beverage stock for the operations. It should be noted that Amtrak must pay for both the cost of the food and beverage supplies and the commissary operations to get its stock on and off its trains.

On average, Amtrak spends approximately three times as much in direct operating expenses as comparable U.S. Restaurants to generate every \$1.00 in sales.

Costs of Labor

Amtrak food service employees are paid approximately 3½ times the amount paid to the equivalent U.S. restaurant employee. This comparison is based on full time equivalent positions as defined by the U.S. Restaurant Association. To insure consistency of data, this analysis defines a full time equivalent employee as 35 hours per week to conform to the standard used by the U.S. Restaurant Association.

Since labor is the most significant cost element of Amtrak's food and beverage operation, the OIG examined three performance ratios to help examine the relative labor costs:

- Labor expense as a % of total sales – how much is paid in labor to generate each \$1 in sales.
- Labor cost per employee - how much each full time equivalent employee costs per year.
- Sales generated per employee - how much in sales is generated by each full time equivalent employee each year.

In the attached graph, *Annual Labor Cost for Full Time Equivalent Employee*, data shows that Amtrak food service workers are compensated more than \$54,000, while comparably skilled food service workers are compensated \$14,450 to \$15,835.

Depending upon the type of food service offered, it costs Amtrak anywhere from 2 to 4.5 times the amount paid in labor by the U.S. restaurant industry to generate each \$1.00 in sales. It costs comparable U.S. restaurants approximately \$0.33 in labor to generate \$1.00 in food and beverage sales while it costs Amtrak anywhere from \$0.64 to \$1.51 in labor to generate each \$1.00 in food and beverage sales.

The relative revenue generating performance of Amtrak's employees is compared to the equivalent U.S. Restaurant employee in attached graph, *Annual Revenue for Full Time Equivalent Employee*. This graph illustrates that, compared to the equivalent U.S. restaurant employee, Amtrak employees working in dining car service generate less in revenue but those working in Acela Club service generate more. This graph also illustrates the fact that Amtrak employees working in the four different types of coach food service generate significantly more per year than the equivalent U.S. restaurant employee. The bottom line is that Amtrak's poor labor expense to sales ratio is primarily caused by its high cost per full time equivalent employee.

In summary, although Amtrak's cost of labor is comparably very high, Amtrak food service employees generate approximately the same in revenue each year as the equivalent U.S. restaurant employee.

Costs of Food

Amtrak pays about 2½ times the amount paid by comparable U.S. restaurants to supply food and beverage to its operations.

Amtrak pays from 2 to 4.3 times the amount paid by comparable U.S. restaurants to stock its food service facilities with food and beverage stock. Comparable U.S. restaurants pay approximately \$0.31 for food and beverage stock for every \$1.00 for sales while Amtrak pays from \$0.64 to \$1.30 for food and beverage stock for every \$1.00 in sales. System-wide, Amtrak pays \$0.83 to supply its trains with food and beverage stock for every \$1.00 in sales. As previously stated, Amtrak's cost to supply its trains with food and beverage stock includes the cost of its commissary operation, which entails purchasing stock in bulk, storing it at Amtrak facilities, assembling individual stock orders, and delivering the stock to the trains.

Other Costs

Amtrak pays about twice as much, on average, for non-consumable stock as a comparable US restaurant.

In addition to food and beverage stock, food operations also use non-consumable items such as napkins, utensils, linen, laundry, paper products, cookware, and china. Depending upon the route and type of service, Amtrak pays from ½ to 3 times the amount paid by comparable U.S. restaurants for these non-consumable stock items. Amtrak's non-consumable expenses range from \$0.03 per sales dollar for its Regional Café service to \$0.18 per sales dollar for its Long Distance Diner Service. Amtrak-wide, non-consumable expenses are approximately \$0.12 per sales dollar, as compared to the approximately \$0.06 per sales dollar for comparable U.S. restaurants.

Opportunities for Improvement

When many of the major airlines experienced financial difficulties several years ago, those carriers abandoned or seriously curtailed food service operations. Amtrak cannot and should not eliminate all food services on many of its trains, it is a necessary component of passenger rail services; however, Amtrak's should consider radically revamping its current business model.

Compared to the U.S. Restaurant Industry, Amtrak spends a staggering amount for labor and for food and beverage supplies to generate each dollar in sales. Since the productivity of Amtrak's on-board employee and service facilities are generally in line with those of the industry, the following areas offer Amtrak the greatest opportunity to improve the performance of its food and beverage operation.

1. Amtrak would improve the bottom line financial performance of its food and beverage service by \$52.5 million if it could operate at the restaurant industry average labor cost to sales ratio.
2. Amtrak would improve the bottom line financial performance of its food and beverage service by \$41.2 million if it could operate at the restaurant industry average food and beverage cost to sales ratio.
3. Although the dollar value is not as large, Amtrak also spends a much higher percentage than the U.S. Restaurant Industry for non-consumable supplies to generate each dollar in sales. Amtrak would improve the bottom line financial performance of its food and beverage business by another \$4.7 million if it could supply its operations with non-consumable supplies (i.e. cost of non-consumable stock to sales ratio) as efficiently as the U.S. Restaurant Industry.

The total financial benefit that Amtrak would accrue if it could operate its existing food and beverage operation at the U.S. Restaurant Industry expense to sales ratios is almost \$100 million annually.

Recommendations

Since receiving the OIG report, Amtrak began immediately to act on the OIG recommendations to improve its food and beverage financial performance. These efforts include piloting elimination of food service on a short-distance route; replacing more costly full service diners with modified lounge service; reducing staffing on Amtrak's Acela Club service; and reviewing options for other staff and equipment consolidations and reductions.

The OIG believes that, collectively, these service changes by management will help the bottom line, but we encourage the company to examine the possibility for more changes. These examinations should include:

- Replacing the existing "commissary" model with a more "just in time" operating model to deliver food stock to the train, especially for corridor operations;
- Re-negotiating its primary food services commissary contract to address the significant carrying costs of these facilities;
- Replacing more costly Amtrak food service on some routes with private contractors and vendors who may have different service offerings and entrepreneurial approaches;
- Engaging state service partners to attract creative, 'home grown' service providers to state-supported trains; and,
- Finding ways to further differentiate Amtrak's services from its competition to attract and hold a larger ridership base.

The OIG recognizes that making substantive changes to the current food and beverage business service model will be difficult, and there will be resistance to changing the status quo. We expect there will be multiple solutions and approaches that will be used to improve food services, most likely involving some service curtailments, new vendors, and new services. With sufficient effort, we are convinced Amtrak's financial performance in this critical service area will be significantly improved.